



OXFORD ANALYTICA

VENEZUELA

FISCAL TRANSPARENCY

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VENEZUELA



COMPLIANCE RATINGS

<i>Fiscal transparency</i>	2006	2005	2004	2003
Clarity of roles	••	••	••	••
Availability of information	•••	•••	•••	•••
Budget preparation	••	••	••	••
Accountability	••	••	••	••
Score	2.25	2.25	2.25	2.25

OUTLOOK & COMMENTARY

Following the re-election of President Chávez on 3 December, and assuming that the oil price remains above about 30-35 dollars/barrel for the Venezuelan basket of oil products, the government is likely to raise its expenditure further in 2007. As much of the government's spending is on transfers and subsidies, it will be politically difficult to rein in if the oil price weakens significantly. Any effort to do so is likely to result in serious economic and political difficulties.

If oil revenues remain solid, the government is likely to institutionalise further the 'parallel public sector' that it has been establishing over the last three years. This includes at least twenty billion dollars in off-budget revenues, generated primarily by state oil company PDVSA, that are disbursed with limited transparency. There is a significant chance that a new Chávez government will seek to weaken constraints on its discretionary use of public funds, which could worsen fiscal transparency in 2007.

Nonetheless, progress is still being made in improving the transparency of some areas of the formal budgetary process and of the central government's finances. Moves towards project-based budgeting are taking place, and a multi-annual budgetary framework is planned for implementation from 2008 onwards. However, sub-national levels of government are lagging behind in terms of fiscal transparency; legislative changes in 2006 have the potential to improve this if managed well, but this appears unlikely.

EXECUTIVE SUMMARY

2.25 Intent declared

During 2006 there has been a consolidation of the 'parallel public sector' in Venezuela. The value of funds that are being managed off-budget and with limited transparency has risen. Since the creation of the National Development Fund (Fonden) in 2005, about 17.5 billion US dollars have been transferred into it from the international reserves of the Central Bank of Venezuela (BCV) and from the national oil company Petróleos de Venezuela S.A. (PDVSA). Data about how these funds are being used are difficult to obtain, and are gleaned mainly from press releases. There is no auditing, accountability or parliamentary oversight of the funds, a significant proportion of which are believed still to be held outside Venezuela. Fonden's official role is to manage and disburse those funds for purchasing foreign debt, goods and services in foreign currency, and to maintain a reserve in case of disasters; some commentators state that infrastructure and social projects are also being paid for out of Fonden.

A further important development in 2006 has been the operationalisation of the Treasury Bank (Banco del Tesoro). This new institution's responsibilities include management of the internal and external public debt, and treasury operations of the government. It will receive funds from government tax receipts and (according to some commentators) transfers from the National Development Fund (Fonden). According to the government, the establishment of the Treasury Bank will improve efficiency; in practice, it will permit the government to exert greater control over aspects of public finances without having to overcome possible resistance from the BCV.

In 2006 there have been legislative changes that have altered the structure of fiscal decentralisation. The key change was the Law on Communal Councils (*Ley de Los Consejos Comunales*), passed on 6 April 2006. Local (communal) councils have been established throughout the country, whose purpose is to determine the allocation of a substantial proportion of the transfers that previously accrued to regional and municipal governments. The councils are made up of members of the general public who, according to some commentators, are often chosen on the basis of their loyalty to President Chávez. There is not yet a formal auditing process for how these funds are used by the councils.

On a more positive note, the 2007 budget will continue the development -- started in the 2006 budget -- of becoming more project-based, with more detail being provided on the exact destination of resources. Fiscal data is being compiled through SIGECOF (*Sistema Integrado de Gestión y Control de las Finanzas Públicas*), which, when fully operational, will allow the real-time recording of expenditures and monitoring of budget execution. The system has been funded partly by the World Bank under the Programme for the Modernisation of the Financial Administration of the State (PROMAFE). The expenditure module of SIGECOF is partially functioning for the central government, but rollouts to include revenues, and the sub-national levels of government, are both still at an early stage. However, one commentator suggested that the further rollout of SIGECOF is very uncertain because funding for it has been reduced and several of the staff with the technical capabilities to manage the system have left the government.

Fiscal transparency should be enhanced when the updated Multi-annual Budget Framework is incorporated into each year's budget, as is planned for 2008 onwards. Until now, the government has been testing multi-annual budgeting and is expected to refine the process prior to 2008.

Venezuela's overall score is unchanged from last year.

1. CLARITY OF ROLES, RESPONSIBILITIES, AND OBJECTIVES



Intent declared

The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.

Venezuela is a decentralised republic, in which power is divided between the executive, the legislature (the National Assembly) and the judiciary. In terms of decentralisation, the executive and the National Assembly have continuously introduced new laws, reforms, and decrees that have done little to consolidate the institutional framework envisaged in the constitution.¹

Since 2005, President Hugo Chávez, rather than the political parties, has nominated candidates for state governors (state governors are elected), and these governors depend more now than ever on the central government. Of the 23 state governors, 21 are from the governing coalition and there is considerable party discipline among them; they are very unlikely to go against any directions from Chávez. The new Chávez government is likely to continue the current policy of increasing centralised control over most state functions. In part this is because of the -- often legitimate -- concern of the central government that many regions do not have the human and the technical capacities necessary to assume the responsibilities of a decentralised state. Instead of building those resources, the government is recentralising the main responsibilities.²

Structure, functions, and responsibilities of government

The constitution and subsequent legislation (notably the Organic Law on the Financial Administration of the Public Sector -- LOAF, passed in 2000) defines the relationship between the national and sub-national governments, and their respective jurisdictions over public and private sector economic activity. Sub-national levels of government do not raise taxes, but receive transfers from the central government, primarily through mechanisms specified in the constitution (*Situado Constitucional*), in the Law on Special Economic Allocations (*Ley de Asignaciones Económicas Especiales* -- LAES, which was amended twice this year, in March and October), and in the Inter-governmental Fund for Decentralisation (FIDES).

In 2006 there have been three legislative changes that have altered the structure of decentralisation and in practice have reduced the transparency of fiscal decentralisation. The key change was the Law on Communal Councils (*Ley de Los Consejos Comunales*), passed on 6 April 2006, which was supported by the amendments to the LAES and by an amendment in March this year to the law governing the FIDES (*Ley de Reforma Parcial de la Ley que Crea el Fondo Intergubernamental para la Descentralización*). Together, these legislative changes establish local councils as bodies whose purpose is to determine the allocation of a substantial proportion of the transfers that previously accrued to regional and municipal governments. The councils are made up of members of the general public who, according to some commentators, are often chosen on the basis of their loyalty to President Chávez.³ There is not yet a formal auditing process for how these funds are used by the communal councils.

As a result of these changes, in terms of the proportion of government funds that are made available for disbursement by regions and municipalities, the decentralisation process has been reversed in 2006. However, the allocation of resources to local councils also introduces a new element of public choice, albeit with little fiscal transparency at present. The government does plan to raise the level of transparency of the new structure of fiscal

decentralisation through a Federal Government Council (*Consejo Federal de Gobierno*) -- which has still to be established -- and by involving the National Superintendence for Internal Auditing (*Superintendencia Nacional de Auditoría Interna*).⁴

In addition, several state-owned enterprises now operate in those sectors where private investors have halted their activities owing to market restrictions.⁵ The government in 2005 created the Treasury Bank (Banco del Tesoro), which became operational this year. This new institution is taking on several of the responsibilities previously held by other institutions of the state (notably the Central Bank of Venezuela -- BCV), and by private banks. These responsibilities include management of the internal and external public debt, and treasury operations of the government. It will receive funds from government tax receipts and (according to some commentators) transfers from the National Development Fund (Fonden).⁶ According to the government, centralisation of these activities into one entity will improve efficiency; in practice, it will permit the government to exert greater control over aspects of the financial system, without having to overcome possible resistance from the BCV. The Treasury Bank will also act as a commercial bank, providing financial services such as credit cards. The accounts of the Treasury Bank are already publicly available on the website of the Banking Superintendence (SUDEBAN). The government has also established other, significantly smaller banks in recent years, such as Banco del Pueblo and Banco de la Mujer. Some of these do not report to SUDEBAN.⁷

The Fonden is an investment fund set up as a result of an amendment on 19 July 2005 to the BCV Law (LBCV) to receive transfers from national oil company PDVSA and the BCV, and to manage and disburse those funds for purchasing foreign debt, and goods and services in foreign currency, and to maintain a reserve in case of disasters; some commentators state that infrastructure and social projects are also being paid for out of Fonden. Since its creation in 2005, Fonden has received transfers of funds totalling 17.5 billion US dollars (7.5 billion of which was transferred directly from PDVSA to Fonden, and the remainder transferred from the BCV's international reserves). It is unclear how much of this has already been spent, although a significant proportion are believed still to be held outside Venezuela.⁸

Fonden manages these funds in a form of parallel budget, without clear rules to regulate it, and without auditing, accountability or parliamentary oversight of the funds.⁹ However, Finance Minister Nelson Merentes provides a monthly overview of Fonden's accounts to the Finance Committee of the National Assembly, and the government has suggested that its accounts will be made publicly available by the end of this year.¹⁰

In addition, PDVSA manages a separate fund called Fondespa (Fund for the Economic and Social Development of the Country). Commentators note that this fund contains two billion US dollars, but that there is no publicly available data about the destinations of these funds. According to some commentators they are designated for making investments in foreign currency, while other commentators believe they are being used to finance social development projects.¹¹

Coordination and management of budgetary activities

The Organic Law on the Financial Administration of the Public Sector (LOAF, passed in 2000) establishes the general framework for financial management.¹² On paper, the LOAF constitutes a significant achievement in terms of fiscal management and transparency when compared to the previous fiscal regime. It establishes general principles for the budget process and the financial relationship between the federal government and the subnational levels of government, decentralised agencies, and state-owned enterprises. In general, the LOAF is further advanced than its implementation, and so is regarded as a target rather than a reflection of the current fiscal regime.

The LOAF states that the Ministry of Finance (MoF) is responsible for the budget process, including the presentation of the budget bill and management of budget execution.¹³ The responsibility to issue regulations on budgetary matters and to execute the budget lies with the National Budget Office (ONAPRE) within the MoF.¹⁴

The LOAF also establishes a unified treasury account and accounting system, an internal control system, and addresses aspects of macroeconomic coordination between the national government and the BCV.¹⁵

The implementation of the LOAF has hardly progressed in 2006.¹⁶ Commentators continue to stress that the government is still implementing actions that contradict a number of principles set out in the LOAF, such as those concerning the need for transparency. Examples include the discretionary use of off-budget funds; the atypical methods of issuing/allocating government debt without auctions, although officially all debt auctions are now public (e.g. there was a lack of clarity about the timing, purpose or mechanisms for issuing the Bono del Sur in November); and the selective enforcement of procurement regulations and foreign currency sales.¹⁷

There has been some improvement in the information on, and presentation of, debt operations in the budget as a result of the LOAF. There has also been some progress in terms of establishing a multi-annual budget: a 'test run' was produced for 2005-07, and from 2008 its inclusion is formally planned for every budget.¹⁸

Relations between government and public sector agencies

The relationship between the central government and other public sector agencies is clearly defined in the 1999 constitution. The BCV, the Office of the Comptroller General, the Office of the Prosecutor General, and the Office of the Defendant of the People are autonomous state entities. However, commentators stated that President Chávez has control of the Comptroller General and the National Prosecutor.¹⁹

Several reforms to the BCV law (LBCV) and complementary regulations have eroded the central bank's autonomy. Since 2002, the government has been legally allowed to use profits earned by the BCV in the same fiscal year to meet cash shortages. This mechanism became more relevant after the introduction of a fixed exchange rate alongside foreign currency controls in February 2003, since this new exchange regime could provide the government with additional revenues stemming from foreign exchange transactions. However, in 2006, as an indirect result of the submission of monetary policy to the government's fiscal needs, the BCV will post a loss for the first time in its history.

The National Assembly amended the LBCV on 19 July 2005 to enable the government to make use of BCV reserves above a certain 'optimal' level. The BCV proposes a level based on political considerations, and holds a token consultation with the National Assembly on the result, which in 2006 was agreed at 29 billion US dollars.²⁰ According to the LBCV amendment, any excess reserves will be transferred to the Fonden. The amendment was another step in the erosion of the BCV's independence, and more generally solidifies further the executive's control over many of the country's key institutions.²¹

Commentators have confirmed that the monetary framework is increasingly based on the government's political agenda rather than any economic rationale.²² The BCV in 2006 has generally sought to avoid confrontation with the executive on issues related to monetary policy, with members of its board preferring to acquiesce in government preferences relating to the dominance of fiscal over monetary policy. This lack of combativeness represents a significant change compared to previous years, and demonstrates the degree to which the independence of the central bank is being compromised. The ability of the BCV to prioritise price stability is now seriously in question.

Similarly, many legally independent regulatory agencies are in practice subject to considerable influence by the government. The Superintendence of Banks and Financial Institutions (SUDEBAN) is responsible for overseeing public and private financial institutions. However, several public banks are not subject to oversight by SUDEBAN, even though they perform important quasi-fiscal operations on behalf of the government. Special concern has been raised by the fact that many development banks, trust funds, and state-owned enterprises generate considerable losses that are frequently financed with government bonds.²³

Government involvement in the private sector

Articles 299-310 of the constitution set out the broad framework for government involvement in the private sector. The constitution reserves certain strategic sectors, such as the oil sector, for government control. A number of other sectors deemed of national interest, such as tourism, are subject to state aid and protection. Since the end of 2002, the government has increasingly crowded out the private sector, for example through the creation of state-owned enterprises that operate in strategic sectors (such as manufactures and trade).²⁴ For example, the government has established the Treasury Bank and a large food distribution cooperative. The fiscal risks involved in these operations have not been quantified.

PDVSA provides about half of public revenues through transfers, taxes, and profits. PDVSA has been used to fund a number of activities on behalf of the government and to carry out operations that, because PDVSA is not publishing regular financial statements, weaken fiscal transparency. Commentators noted that until 2002, PDVSA reported detailed balance sheets. These accounts are no longer reported by PDVSA and are not included in the national budget. The BCV does not receive detailed accounts from PDVSA.²⁵ PDVSA did publish a basic audited financial statement in August 2005, but it relates to 2003 and lacks detail.²⁶ Occasional, unaudited summaries of its accounts are provided on the PDVSA website, the most recent of which covers the period January to July 2006. However, these contain only headline data.²⁷

There should be a clear legal and administrative framework for fiscal management

Article 311 of the constitution establishes broad principles for fiscal management in Venezuela. These cover issues of transparency, responsibility, efficiency, and the need for balanced fiscal accounts. Based on these general principles, Venezuela has begun to enact a clear legal framework for budgetary activities, including the principles set out in the LOAF. However, progress has remained slow, and has taken place alongside the rise of a 'parallel public sector' centred on Fonden.

Legal framework for budgetary activities

Articles 311-313 of the constitution specify the legislature's role in the budget process. After the government submits the budget for legislative approval, the National Assembly may introduce changes to the bill, but these must be financed. The National Assembly approves the debt plan issued by the government, but may not reduce revenues. If the executive fails to submit a budget bill or the National Assembly declines to approve it, the budget of the previous year is enacted. At the end of the fiscal year, the government must submit the public accounts statement to the National Assembly.

A Law on State Fiscal Management (*Ley de Hacienda Pública Estatal* -- LHPE), which sets out the fiscal process at the sub-national level, was initially presented in March 2001. The National Assembly passed it in March 2004, but it was first blocked by the Comptroller's Office and then vetoed by President Chávez. There has been no progress in submitting a revised version since then and there is a lack of political will to give sub-national authorities more fiscal autonomy. Even if the LHPE is eventually passed, it will not have a very significant impact on regional revenues and costs.²⁸

Until this year about 40% of the budget was directed automatically to the regions, with the exact amounts depending only on the population in a region and not on its economic activity. This formula has now changed and the proportion is falling.²⁹ The exact amount was fixed and depended only on the population in a region and not on its economic activity. There is no accountability for the expenditure of regional resources -- no system for controlling

or evaluating municipal budgets -- and no incentive to use the resources efficiently. Partly for this reason, the central government has been trying to take more control.³⁰

The LHPE would require multi-year planning with annual operative plans that have clear targets and objectives, while also determining accounting and reporting guidelines. It would prevent state and local governments from issuing or acquiring debt and introduce new measures to strengthen the capacity of sub-national governments to raise tax revenues. With the odd exception, up to now the states have not levied taxes and they are not permitted to take on debt. There is still some debate about how the law would allocate responsibilities. The LHPE also contains a Territorial Compensation Fund, which would make regional funding project based. The trend towards re-centralisation follows on from the re-establishment by the MoF's National Integrated Tax Management Service (SENIAT) of centralised tax collection mechanisms in 2003.³¹

Legal framework for taxation

The constitution specifies the principles that guide taxation. All taxes must be specified in law and exemptions must be determined at the same time. Taxes may not have expropriation effects and tax evasion is a criminal offence. The Organic Tax Code (*Código Orgánico Tributario*) further develops the tax framework.³² The code details the tax base, the tax subjects, the procedure to create taxes and to issue tax exemptions, and behaviour that can lead to conviction and imprisonment. The code also establishes legal procedures for dispute settlement and resort to the court of appeals.

The SENIAT is the sole tax administration agency in Venezuela.³³ It has legal, administrative, financial, and technical independence from the executive. However, the executive appoints the head of the SENIAT. Since 2002, the government has reformed on several occasions the legal framework of the value added tax, income tax, and the tax on bank debit (which was revoked in February this year). The SENIAT has significantly reduced tax evasion and has improved tax collection. The SENIAT has also improved its data reporting. Since 2004 it reports the values of taxes collected every month, as well as targets for tax collection.³⁴ In July of 2004, the Corporate Income Tax Law was passed, which facilitates tax collection among large contributors.

In 2006 substantial progress has been made in the area of e-government: many public sector employees now file tax forms electronically, and the intention is to begin to include the private sector in 2007. This development should reduce levels of corruption related to tax collection.

Ethical standards for public servants

The constitution and complementary legislation determine ethical standards for public servants. The Public Service Statute (*Ley Sobre el Estatuto de la Función Pública*) provides ethical standards required for public employees at all government levels, and includes hiring, promotion, and contract termination procedures.³⁵

2. PUBLIC AVAILABILITY OF INFORMATION



Enacted

The public should be provided with full information on the past, current, and projected fiscal activity of government.

Central government operations

The MoF publishes annual, quarterly, and monthly fiscal information on the activities of the central government on its website. Ahead of its submission to the National Assembly, the ONAPRE publishes the budget draft that includes forecast revenues, expenses, and financial requirements. However, during the course of the year following approval of the budget, the executive makes several additions to the budget, and these do not undergo the same rigorous examination by the National Assembly as the budget itself. In 2006 the government made so much use of these additions to the budget (raising the budget from 87 trillion bolivars to over 120 trillion during the course of this year), and did so at such an early stage in the year, that some commentators questioned whether this has become a deliberate policy by the government to reduce fiscal transparency.³⁶

Budget documents do not compare appropriations with effective budgetary execution, although year-end data are available on the ONAPRE website (from the 1999 fiscal year onwards).³⁷ Models and methodology used to estimate and forecast fiscal activity are not publicly available. The MoF publishes an *Annual Report* containing a detailed review of fiscal performance during the past fiscal year as well as reports from the ONAPRE and the Treasury Office. In addition, the MoF makes available monthly and quarterly statistics for central government budgetary operations and submits public accounts to the National Assembly at the end of each fiscal year.

Public sector operations

Full details of the fiscal activities of the general government are not available, and quasi-fiscal operations undertaken by state-owned enterprises and public financial institutions are not disclosed. The MoF used to publish the consolidated 'Narrowly Defined Public Sector' accounts (*Sector Público Restringido*), which included quarterly updates on the fiscal performance of the central government, decentralised institutions, a number of non-financial state-owned enterprises, and public financial institutions. The Narrowly Defined Public Sector accounts have not been published since 2003, which is a serious concern for transparency.³⁸ However, the government has stated that it does plan to publish them again at the end of this year.³⁹

A commitment should be made to the timely publication of fiscal information.

The public finances chapter of the constitution and the LOAF both acknowledge the need for fiscal transparency. The LOAF contains requirements for the timely submission of fiscal information to the National Assembly. Commentators stated that most state-owned companies' investments are in the budget, but that there are no consolidated accounts.⁴⁰

Debt reporting

As part of Venezuela's commitment to the IMF General Data Dissemination System (GDDS), the country publishes annual and quarterly domestic and foreign debt data. In addition, the MoF website posts a report by the minister of finance to the National Assembly on debt operations, prospects, and financial strategy. The MoF details its daily debt operations through press releases and weekly balance reports. However, commentators expressed concern about the lack of clarity with which government bonds are distributed (without auctions) to a number of state-owned enterprises and financial institutions.⁴¹

Debt restructuring details are on the MoF website. The BCV provides daily information on the public debt. During 2005, there was a significant improvement in the information on, and presentation of, debt operations in the budget. For example, the uses of the debt are now far clearer than previously, although there has been a lack of clarity surrounding some recent debt issues.⁴²

Advance release calendars

The MoF's website includes an advance release calendar, and a description of reporting guidelines, definitions and classifications.

3. OPEN BUDGET PREPARATION, EXECUTION, AND REPORTING



Intent declared

Fiscal policy objectives, macroeconomic framework, and risks

Under the terms of the LOAF, Venezuela should adopt an open budget preparation framework. Budgets are expected to reflect the planning process and contain measurable objectives and resource allocations. The LOAF also requires the use of a multi-year primary fiscal balance framework for investment projects funded by debt issues. However, in practice Venezuela's budgetary process does not meet these requirements. The budget bill excludes the budgets of state-owned enterprises, which are separately reviewed and approved by the president and the Council of Ministers.

Fiscal policy objectives

The Ministry of Planning and Development (MPD) prepares the Annual National Operating Plan (*Plan Operativo Anual Nacional -- POAN*), which discloses fiscal policy objectives for the relevant fiscal year. Since 2003, the only POAN documents available on the Ministry of Planning and Development website are guidelines for constructing the 2006 and 2007 POANs, and extracts from the 2005 POAN.⁴³

The *National Development Plan 2001-2007* forecasts fiscal performance for the entire presidential term, although it is not updated to reflect changing economic and fiscal conditions.⁴⁴ There have been very significant increases in government expenditure over the last several years, financed by oil-related revenues. Commentators estimate that the government would encounter serious difficulties in honouring its spending commitments if the price of the Venezuelan oil product basket falls to the 30-35 dollar/barrel range.⁴⁵ This would still be higher than the 29 dollars/barrel assumption incorporated in the 2007 budget. The government consistently includes oil price assumptions in the budget that are extremely cautious, which according to some commentators is a deliberate strategy to gain greater flexibility in spending the additional revenues.⁴⁶

Macroeconomic framework

A basic macroeconomic framework, which is prepared by the government and the BCV, is included in the budget bill. The framework is developed using a general equilibrium model that incorporates economic growth, oil prices, foreign exchange effects, and interest rates. The SENIAT estimates tax revenue used for revenue forecasting. There are serious doubts about the macroeconomic assumptions with regard to PDVSA's oil production and revenues.⁴⁷ PDVSA consistently claims to be producing about 600,000 barrels/day more than suggested by OPEC or the International Energy Agency.⁴⁸

Fiscal risks

The LOAF requires the budget to include all fiscal risks including contingency scenarios for oil revenues and contingent liabilities. However, the 2007 budget does not include a detailed description of fiscal risks or contingent liabilities. The Multi-annual Budget Framework for 2005-2007 has a broader analysis of fiscal risks, though the methodology employed needs refining.⁴⁹

Commentators noted that the lack of quantification of contingent liabilities is something that is likely to become of increasing concern. For example, large numbers of people are being hired to work in the government's social programmes, but they are not officially incorporated into government ministries, so any benefits or pensions that these people will expect after a number of years are not included in any planning.⁵⁰

Commentators further noted that the social security system is unsustainable, and that there is no model or analysis regarding its sustainability.⁵¹ Some legislative progress was made in 2006, with a reform of the pensions system for public sector employees at regional and municipal levels (*Ley de Reforma de la Ley del Estatuto Sobre el Régimen de Jubilaciones y Pensiones de los Funcionarios o Empleados de la Administración Pública Nacional de los Estados y de los Municipios*, April 2006).

Fiscal sustainability

The LOAF requires that the multi-year financial plan promote fiscal sustainability by incorporating fiscal primary balances by the end of the plan's term. A Multi-annual Budget Framework for 2005-2007 was produced as an exercise. It includes an analysis of fiscal sustainability, which is likely to be reproduced and updated once the Multi-annual Budget Framework is incorporated into the annual budget process, scheduled to be the case from 2008 onwards. In terms of fiscal sustainability, the major problem is the high level of off-budget expenditure, much of which is not transparent.

Budget presentation

As a proportion of total income and expenditure, the official budget covers less each year, so an increasing number of items are now off-budget. However, the 2007 budget will continue the positive development -- started in the 2006 budget -- of becoming more project-based, with more detail being provided on the exact destination of resources. This was the first major achievement of years of work by the financial management information system, SIGECOF (*Sistema Integrado de Gestión y Control de las Finanzas Públicas*). Sub-national levels of government have not yet followed suit. Fiscal transparency should be enhanced when the updated Multi-annual Budget Framework is incorporated into each year's budget, as is planned for 2008 onwards.

About half of the increases in social spending are not shown in the 2007 budget. Commentators are concerned about the partial exclusion of the mission (social programmes introduced by Chávez as an alternative to other, previously established -- and often badly functioning -- social projects) budgets from the main budget, particularly given the massive increase in spending on missions. However, as missions have started to coordinate more with the ministries over the past two years, an increasing proportion of the resources spent on them are appearing in the national budget, which is a positive step.⁵² For example, the expenditure by the Ministry of Health on the *Barrio Adentro* mission is accounted for in the budget.

However, about half of the funds for the missions probably come from the opaque Fonden and Fondespa funds and only headline data on the amounts being invested in missions from these funds is available, usually from press releases. Commentators have stated that the funds disbursed in this way are channelled exclusively through the central government, rather than to sub-national levels of government.⁵³ The missions often do have websites, but no detailed accounts.⁵⁴

Lines of accountability and oversight within the hundreds of different mission projects are unclear and allegations of corruption are heard frequently from those at the grassroots involved in their administration. Responsibility for the missions is fragmented across different ministries and agencies, with the central administration also having oversight and input into some key programmes. Without a streamlining of these functions and clear lines of responsibility, the potential for duplication and corruption has increased, in turn creating frustration at the grassroots

as the rollout of the missions is impeded by administrative weaknesses. The government has announced a consolidation of the programmes, but there is a strong view that it does not have the ability or commitment to determine the most effective organisational form for the missions. Indicative of the type of problems encountered by the government is the acute absence of technical capacity in the missions.⁵⁵ The government intends to create a system that monitors the missions and their impact, but this is at an early stage.⁵⁶

Data reporting

The current budgetary framework mandates a wealth of budgetary information that includes detailed policy objectives, human resource needs, and budgetary execution of the previous five years. The government continues to make some progress on data reporting, but many areas for improvement remain. New programmes, changes to the *National Development Plan*, and resources transferred to pension liabilities are not clearly explained or measured in terms of their fiscal impact. One commentator suggested that in 2006 there has been less monitoring and certification of official data by international institutions than in previous years.⁵⁷

Commentators noted that government statistics are being published more slowly than previously, and that the quality has suffered in some cases. For example, it was noted that the MoF website contains less detailed information than previously, and that the time lags for publishing data on the site have risen from three months to six months in several cases.⁵⁸ As in previous years, commentators stated that the statistics reported by PDVSA (in the press) on oil production are not reliable.

There is also a lack of confidence in certain statistics produced by the National Institute of Statistics (INE), such as the unemployment statistics.⁵⁹ The MoF is in a phase of transition in which some responsibility for publishing government data is being passed to the INE, which will publish it according to IMF standards. However, this transfer is progressing very slowly as the MoF and INE have different methods of presenting data, which have to be standardised before any significant transfer of data can occur. Some commentators questioned whether moving the data to the INE was a good idea, as they felt that the INE lacks the necessary resources.

This year, concerns have been raised about some BCV data. Several commentators believe that the level of inflation was deliberately underestimated so that the government did not lose support ahead of the presidential election on 3 December. A lack of clarity is generated by the fact that the BCV has not specified the basket of goods on which recent inflation calculations are based, so the proportion of goods in the basket whose prices are fixed is not known. It was also noted that since 2003 the BCV has not published disaggregated investment data (i.e. data distinguishing public from private investment).⁶⁰

Budget execution and monitoring

The provision of information on the execution of the budget is particularly crucial in the case of Venezuela because the lag in budgetary execution by the end of the fiscal year has typically been close to 20% of the overall budget. This has often led to considerable under-estimation of the budget deficit. Typically, the Venezuelan budget continues to be executed well into the following year.

The ONAPRE and the Budget Office are in charge of budgetary execution and monitoring. Fiscal data is being compiled through SIGECOF, which, when fully operational, will allow the real-time recording of expenditures and monitoring of budget execution. The system, which is being developed by the MoF, the MPD and the Office of the Comptroller General, has been funded partly by the World Bank under the Programme for the Modernisation of the Financial Administration of the State (PROMAFE). The expenditure module of SIGECOF is partially functioning for the central government, but rollouts to include revenues, and the sub-national levels of government, are both still at early stages -- although investment in software and hardware for regional and municipal governments is already

being made. One commentator suggested that the further rollout of SIGECOF is very uncertain because funding for it has been reduced and several of the staff with the technical capabilities to manage the system have left the government.⁶¹

Up to date information on execution of the consolidated budget is not available; the ONAPRE reports changes to the budgeted disbursements throughout the year but does not record the percentage of actual disbursements compared to total appropriations.

Accounting basis

Budgetary revenues and expenditures are recorded on a cash basis. Accounting records are kept by the National Treasury and are derived from payment orders settled by the Treasury. The MoF provides only limited information on the procedures followed in compiling budgetary data, but a comprehensive online list of the accounting and audit practices for the public sector is available from the Comptroller General's website.⁶²

Procurement and employment

Venezuela reformed its Law on Procurement (*Ley de Licitaciones*) in November 2001.⁶³ The current framework establishes a national registry of providers of goods and services to the government and guidelines for a transparent selection process that includes the use of electronic platforms. The government has made progress in developing these platforms in 2006, which represents an improvement in terms of transparency of procurement.⁶⁴ However, commentators have asserted that many government agencies and sub-national levels of government have used the provisions of Chapter II (Articles 87-89) of the Law to override the selection process and assign contracts directly, which is increasingly perceived as a sign of corruption.⁶⁵ Venezuela ranks penultimate out of 142 countries in Transparency International's 2006 Corruption Perceptions Index.⁶⁶

Fiscal reporting

The LOAF and the constitution mandate the MoF to produce an *Annual Report* for submission to the National Assembly. The report contains detailed information on fiscal performance during the relevant fiscal year. Similarly, the budget bill includes a report of execution of appropriations during the previous fiscal year together with new budget allocations. Each ministry is mandated to give detailed reports to Congress but, according to commentators, much of what is contained in these reports is not very informative.⁶⁷

4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY



Intent declared

Data quality standards

As part of its commitment to the IMF GDDS, the Statistics Office, OEFP (*Oficina de Estadísticas de las Finanzas Públicas*) has been working to expand the coverage of central government data to include the operations of social security institutions and non-financial public enterprises. With technical assistance from international organisations, some data on regional and local governments has been published, and collating this information into the general government is taking place. In addition, the OEFP plans to incorporate the accounts of non-financial public enterprises to obtain the balance for the non-financial public sector. Commentators maintained that there is no data on local government finances, and only poor data on regional government finances. There is still a lack of data on social programmes (missions). The OEFP has been updating its financial statistics very slowly.⁶⁸

Budget data are reported following clear accounting guidelines, and are subject to independent internal and external auditing. The National Superintendence of Government Accounting and Audit cross checks the balance sheets of public agencies and institutions. The reports produced by the Superintendence are more reliable than government data as they follow a modified accrual accounting methodology that incorporates changes in the budgetary lag, rather than the cash-based methodology followed by the MoF. A separate issue is that in 2004 GDP growth statistics were rebased from 1984 to 1997, making it more difficult to draw comparisons with pre-1997.⁶⁹

Independent scrutiny of fiscal information

Independent Audit

Under the Organic Law of the Comptroller General, the Office of the Comptroller General is an autonomous entity responsible for monitoring fiscal operations, including the transparent use of public resources and the performance audit of public management. However, there is a perception that the Comptroller's office is technically weak and lacks sufficient independence from the executive. Some commentators stated that President Chávez has control of the Comptroller General and the National Prosecutor. The Comptroller General is keeping a very low profile, and while the office is investigating cases of petty corruption, large-scale corruption appears to be going uninvestigated.⁷⁰ An annual report by the Comptroller goes to the National Assembly. However, it is becoming less detailed and more opaque. Commentators stated that the Comptroller is unable to supervise Fonden or Fondespa.⁷¹ A selection committee that includes representatives of the state legislative bodies and civil society elects state comptrollers in an open process.

National Statistics Agency

The OEFP is responsible for gathering and reporting fiscal data. The National Institute of Statistics (INE) is a devolved body of the MPD, and by law it has the authority and responsibility for planning and implementing the organisation and development of an integrated national accounting system.⁷² However, the INE does not possess auditing functions to verify the government's financial statistics. There have been questions over the quality and integrity of the INE's data compilation since 2003.⁷³ Commentators maintained that the problem is a combination of a lack of technical capabilities and political pressure to manipulate statistics.⁷⁴ Commentators also stated that

access to the INE's statistics has worsened, with the only access point being the website. Requests via other media are, they state, always diverted to the website.⁷⁵

Commentators further noted that the INE's data are published with long delays. Also, the national consumer price index (CPI) is still based only on prices in Caracas, but the BCV is currently working on developing a new national CPI. Commentators noted that there was more coordination between the BCV and the INE in general in 2005, but there was no sign of a strengthening of this trend in 2006.⁷⁶

INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Venezuela between 6 and 10 November 2006:

Ministry of Finance

6 November 2006

Guillermo Ortega	General Coordinator	Public Policy Evaluation Unit
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Central Bank of Venezuela (BCV)

10 November 2006

An interview was conducted with a senior official of the Central Bank of Venezuela on condition of anonymity.

ADDITIONAL INTERVIEWS

6 November 2006

Pedro Ravelo	Consultant	World Bank
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7 November 2006

Leonardo Vera Azaf	Senior Economist	Banco Mercantil
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8 November 2006

José Guerra Brito	Former Head of Economic Research	Central Bank of Venezuela
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9 November 2006

Ana María Di Leo	Assistant Director	Veneconomia
José Manuel Puente	Faculty member	Centre for Public Policy, IESA

10 November 2006

Esteban Sánchez	Head of Economic and Fiscal Research	Econ. & Fin. Counsel to the Nat. Assembly
Ricardo Quiroz	Economic and Fiscal Research	Econ. & Fin. Counsel to the Nat. Assembly

NOTES

- ¹ Constitución de la República Bolivariana de Venezuela, 1999 (as amended, in Spanish only): www.bcv.org.ve/c3/constitucion.asp
- ² Interviews in Venezuela, 25-28 October 2005.
- ³ Interviews in Venezuela, 6-10 November 2006.
- ⁴ Interviews in Venezuela, 6-10 November 2006.
- ⁵ Interviews in Venezuela, 27-30 October 2003.
- ⁶ Interviews in Venezuela, 6-10 November 2006.
- ⁷ Interviews in Venezuela, 6-10 November 2006. The Treasury Bank's accounts for August are available at: www.sudeban.gob.ve/documentos/balance_publicacion/Balance-Publicacion-Agosto-2006.xls
- ⁸ Interviews in Venezuela, 6-10 November 2006.
- ⁹ Interviews in Venezuela, 6-10 November 2006.
- ¹⁰ Interviews in Venezuela, 6-10 November 2006.
- ¹¹ Interviews in Venezuela, 6-10 November 2006.
- ¹² Organic Law on the Financial Administration of the Public Sector (LOAF): www.asambleanacional.gov.ve/ns2/leyes.asp?id=223
- ¹³ Ministry of Finance (MoF): www.mf.gov.ve/
- ¹⁴ National Budget Office (*Oficina Nacional de Presupuesto*, ONAPRE -- previously OCEPRE): www.ocepre.gov.ve/
- ¹⁵ Central Bank of Venezuela: www.bcv.org.ve/
- ¹⁶ Interviews in Venezuela, 6-10 November 2006.
- ¹⁷ Interviews in Venezuela, 27-30 October 2003, 8-12 November 2004 and 6-10 November 2006.
- ¹⁸ Interviews in Venezuela, 6-10 November 2006.
- ¹⁹ Interviews in Venezuela, 8-12 November 2004 and 6-10 November 2006.
- ²⁰ Interviews in Venezuela, 6-10 November 2006.
- ²¹ Oxford Analytica Daily Brief, Venezuela: 'Foreign Reserves Limits Raise Risks', 7 June 2005 and interviews in Venezuela, 25-28 October 2005.
- ²² Interviews in Venezuela, 27-30 October 2003 and 6-10 November 2006.
- ²³ Interviews in Venezuela, 27-30 October 2003.
- ²⁴ Interviews in Venezuela, 27-30 October 2003.
- ²⁵ Interviews in Venezuela, 8-12 November 2004.
- ²⁶ Interviews in Venezuela, 25-28 October 2005.
- ²⁷ See article on PDVSA website (www.pdv.com) entitled '*Resultados financieros de PDVSA son altamente positivos*', 28 August 2006.
- ²⁸ Interviews in Venezuela, 25-28 October 2005.
- ²⁹ Interviews in Venezuela, 6-10 November 2006.
- ³⁰ Interviews in Venezuela, 25-28 October 2005.
- ³¹ Interviews in Venezuela, 27-30 October 2003 and 8-12 November 2004.
- ³² The Organic Tax Code (*Código Orgánico Tributario*, in Spanish only): www.asambleanacional.gov.ve/ns2/leyes.asp?id=272
- ³³ National Integrated Tax Management Service (*Servicio Nacional Integrado de Administración Tributaria*-SENIAT): www.seniat.gov.ve
- ³⁴ Interviews in Venezuela, 8-12 November 2004.
- ³⁵ Public Service Statute (*Ley Sobre el Estatuto de la Función Pública*, in Spanish only): www.asambleanacional.gov.ve/ns2/leyes.asp?id=425
- ³⁶ Interviews in Venezuela, 6-10 November 2006.
- ³⁷ For example, see Budget Execution (*Asignación y Ejecución Financiera del Presupuesto 2002*, in Spanish only): www.ocepre.gov.ve/
- ³⁸ Interviews in Venezuela, 25-28 October 2005 and 6-10 November 2006.
- ³⁹ Interviews in Venezuela, 6-10 November 2006.
- ⁴⁰ Interviews in Venezuela, 8-12 November 2004.
- ⁴¹ Interviews in Venezuela, 27-30 October 2003 and 6-10 November 2006.
- ⁴² Interviews in Venezuela, 25-28 October 2005 and 6-10 November 2006.
- ⁴³ *Plan Operativo Anual Nacional* (POAN, in Spanish only): www.mpd.gov.ve/poan2003/poan2003.htm

⁴⁴ *Plan de Desarrollo Económico y Social de la Nación 2001-2007* (in Spanish only):

www.mpd.gov.ve/pdeysn/plan.htm

⁴⁵ Interviews in Venezuela, 6-10 November 2006.

⁴⁶ Interviews in Venezuela, 6-10 November 2006.

⁴⁷ Interviews in Venezuela, 8-12 November 2004 and 25-28 October 2005. This is of particular concern given that about half of all government revenues come from the oil sector.

⁴⁸ Interviews in Venezuela, 6-10 November 2006.

⁴⁹ Interviews in Venezuela, 18-20 November 2002 (the methodology used in annual or multi-annual budgeting was not available for consultation) and interviews in Venezuela, 8-12 November 2004.

⁵⁰ Interviews in Venezuela, 25-28 October 2005.

⁵¹ Interviews in Venezuela, 8-12 November 2004 and 6-10 November 2006.

⁵² Interviews in Venezuela, 25-28 October 2005.

⁵³ Interviews in Venezuela, 6-10 November 2006.

⁵⁴ Interviews in Venezuela, 8-12 November 2004 and 6-10 November 2006.

⁵⁵ Oxford Analytica Daily Brief, Venezuela: 'Institutional Weakness Hits Social Policy', 6 September 2005.

⁵⁶ Interviews in Venezuela, 25-28 October 2005.

⁵⁷ Interviews in Venezuela, 25-28 October 2005 and 6-10 November 2006.

⁵⁸ Interviews in Venezuela, 6-10 November 2006.

⁵⁹ Interviews in Venezuela, 25-28 October 2005 and 6-10 November 2006.

⁶⁰ Interviews in Venezuela, 6-10 November 2006.

⁶¹ Interviews in Venezuela, 6-10 November 2006.

⁶² Accounting and audit practices (in Spanish only): www.cgr.gov.ve/no_publicaciones.html

⁶³ *Ley de Reforma Parcial a la Ley de Licitaciones* (in Spanish only):

www.asambleanacional.gov.ve/ns2/leyes.asp?id=500

⁶⁴ The electronic platform is at www.snc.gob.ve/registroenlinea2.php

⁶⁵ Interviews in Venezuela, 27-30 October 2003 and 6-10 November 2006.

⁶⁶ See http://www.transparency.org/policy_research/surveys_indices/global/cpi

⁶⁷ Interviews in Venezuela, 8-12 November 2004.

⁶⁸ Interviews in Venezuela, 6-10 November 2006.

⁶⁹ Interviews in Venezuela, 8-12 November 2004.

⁷⁰ Interviews in Venezuela, 25-28 October 2005.

⁷¹ Interviews in Venezuela, 8-12 November 2004.

⁷² INE: <http://www.ine.gov.ve/>

⁷³ Interviews in Venezuela, 27-30 October 2003.

⁷⁴ Interviews in Venezuela, 25-28 October 2005 and 6-10 November 2006.

⁷⁵ Interviews in Venezuela, 8-12 November 2004.

⁷⁶ Interviews in Venezuela, 25-28 October 2005 and 6-10 November 2006.